SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Baca | Analyst: Jeani Brent | Bill Number: AB 3

Related Bills: See Prior Analysis | Telephone: 845-3410 | Amended Date: 08/20/98

Attorney: Doug Bramhall | Sponsor:

SUBJECT: Local Agency Military Base Recovery Area/Increase Designations/Modify Hiring Credit/Increase Business Expense Deduction

X DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _________.

_____ FURTHER AMENDMENTS NECESSARY.

X DEPARTMENT POSITION CHANGED TO Support .

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED April 13, 1998, STILL APPLIES.

_____ OTHER - See comments below.

SUMMARY OF BILL

Under the Government Code, this bill would allow Trade and Commerce Agency (TCA) to designate three additional Local Agency Military Base Recovery Areas (LAMBRAs) anywhere in this state. This bill also would delete the requirement that TCA designate the LAMBRAs no later than one year from the effective date of its LAMBRA regulations and would provide for specified loan priorities and contract preference points to businesses located, or contracts performed, in a LAMBRA. The last two provisions mentioned above would not impact the department and are not discussed in this report.

Under the Revenue and Taxation Code, this bill would make the following changes:

- Delete the January 1, 2003, sunset date from the LAMBRA tax incentives and instead tie the qualified use of the incentives to the designation period of the LAMBRA, thereby making the LAMBRA tax incentives more like the enterprise zone tax incentives and ensuring that the incentives do not expire before the designation.
- Change the hiring credit definition of "qualified disadvantaged individual."
- Increase the amount of the allowable business expense deduction to the same amount as that allowed for the enterprise zone business expense deduction.

SUMMARY OF AMENDMENT

The August 20, 1998, amendments made the following changes:

- Reduced from five to three the number of additional LAMBRAs that TCA may designate.

Board Position:			Department/Legislative Director	Date
___ X___ S	________ NA	________ NP		
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- Updated the Revenue and Taxation Code sections that had been modified by statutes enacted since the date this bill was introduced.
- Reinserted two LAMBRA hiring credit paragraphs that inadvertently had been deleted earlier relating to the federal Job Training Partnership Act and the federal Greater Avenues for Independence Act.
- Included changes to the LAMBRA sales or use tax credits that would delete the January 1, 2003, sunset date from the LAMBRA tax incentives and instead tie the qualified use of the incentives to the designation period of the LAMBRA.

The changes to the Revenue and Taxation Code sections resolved the technical considerations addressed in the department's analysis of the bill as amended April 13, 1998. The decrease in the number of new LAMBRAs that may be designated impacts only the revenue estimate, and an updated estimate is provided below. Except for the revenue estimate and Board position, the remainder of the department's analysis of the bill as amended April 13, 1998, still applies.

TAX REVENUE ESTIMATE

The first fiscal year with a revenue impact would be 1999-0 because of the timing of final designations.

Estimated Revenue Impact of AB 3 As Amended August 20, 1998 ($in Millions)			
1999-0	2000-1	2001-2	2002-3
(minor) *	($3)	($6)	($9)

* Less than $500,000

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

TAX REVENUE DISCUSSION

Revenue losses under the PITL and the B&CTL would depend on the number of businesses that would purchase qualified property subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming tax benefits.

Because the effectiveness of a new area is unknown, this estimate uses an average revenue loss of $3 million per LAMBRA by the third full year after implementation (see below for basis). Losses for the initial years would be less.

It is anticipated that the three new LAMBRAs would be fully established by September of 1999. The expensing allowance for employers on certain property placed in service in LAMBRAs is enlarged and reflects the limitations proposed in this bill to mirror the enterprise zone limits.

Sales Or Use Tax Credit

The average sales and use tax rate for California is 7.92%. For every $100 million in qualified property of which one-fourth of the calculated credit could be used to offset apportioned tax liabilities for the first year, the revenue loss would be $2 million for each additional LAMBRA designation.

Hiring Credit

Assuming an average wage of $8.50 per hour, for every 1,000 employees who work an average of 1,000 hours and qualify employers for the first year credit, the revenue loss would be $1 million for each additional designation (assuming 25% of calculated credits could be used to offset apportioned tax liabilities).

Expense Deduction

The loss would probably be minor, due to the limitation for the amount of expensing. For larger equipment many taxpayers would continue to use depreciation rather than the option under this provision to expense.

Net Operating Losses

The revenue loss for the option of the 100% net operating loss deduction applied against income attributed to the LAMBRA (rather than applying other net operating loss provisions) would probably be minor in the first few years. This estimate is based on current law experience for enterprise zones and program areas and law changes that now permit small and new businesses to use 100% carryover.

BOARD POSITION

Support.

At its May 28, 1998, meeting, the Franchise Tax Board voted 2-0 to support this bill, with the representative from Department of Finance absent.